# SUMMARY of the Scheme Report of the Independent Expert on the Proposed Insurance Business Transfer Scheme from Mercantile Indemnity Company Limited and Rombalds Run-Off Limited to River Thames Insurance Company Limited under Part VII of the Financial Services and Markets Act 2000

21 July 2025

Prepared by Kate Angell, Independent Expert

## Introduction

1.1 When a scheme for transferring insurance business from one company to another is put to the High Court of Justice in England and Wales (the "Court") for approval it has to be accompanied by a report on the terms of the scheme (the "Scheme Report") from an independent expert (the "Independent Expert").

1.2 Towers Watson Limited (which is part of WTW) has been engaged by Enstar (EU) Limited ("Enstar") to provide a Scheme Report for the proposed Part VII transfer (the "Proposed Scheme") which relates to the transfer of certain policies within the Enstar insurance group (the "Enstar Group"). The Enstar Group manages a wide range of run-off business across multiple global markets including the UK.

1.3 I, Kate Angell, am employed by Towers Watson Limited and have been appointed as the Independent Expert for the Proposed Scheme.

1.4 This document is a summary of the Scheme Report which I have produced (the "Summary") and the Scheme Report contains detailed information that is not shown in this Summary. This Summary, and the Scheme Report, have been prepared for the Court in order to aid the Court's consideration as to whether the Proposed Scheme should be approved.

1.5 This Summary is subject to the same reliances and limitations as those set out in the Scheme Report and in the event of any real or perceived conflict between this Summary and the Scheme Report, the Scheme Report shall prevail.

## The Proposed Scheme

1.6 The Proposed Scheme relates to the transfer of all the policies of Mercantile Indemnity Company Limited ("Mercantile") and Rombalds Run-Off Limited ("Rombalds") to River Thames Insurance Company Limited ("River Thames"). Mercantile, Rombalds and River Thames (collectively the "Companies") are all wholly owned subsidiaries within the Enstar Group.

1.7 The purpose of the Proposed Scheme is to simplify the operational structure of the UK operations of the Enstar Group, and the Proposed Scheme is expected to reduce operational costs.

1.8 It is proposed that all the assets and liabilities (including all the policies) within Mercantile and Rombalds be transferred to River Thames as part of the Proposed Scheme, including the benefit of all the reinsurance which provides cover for the transferring policies. No policies are expected to remain in Mercantile or Rombalds following the Proposed Scheme.

1.9 The Transferring Policies represent 100% of the liabilities of Mercantile and Rombalds. If the Proposed Scheme is sanctioned then, in the Post Scheme Position, the liabilities of River Thames will be comprised of 21% from the existing business of River Thames, 78% from the existing business of Mercantile and 0.3% from the existing business of Rombalds. These percentages are based on the percentages of the gross of reinsurance reserves for each of the Companies on a UK GAAP basis as at 31 December 2023. On a net of reinsurance basis, the equivalent figures would be 34% from the existing business of River Thames, 65% from the existing business of Mercantile and 1% from the existing business of Rombalds.

1.10 The Companies are all run-off companies, such that they continue to administer and pay claims for existing policies. The Companies are all domiciled in the UK.

## Scope of review

1.11 I have considered the likely effects of the Proposed Scheme on the following three distinct groups of affected policyholders:

- The policyholders of Mercantile whose insurance policies are transferring to River Thames (the “Mercantile Policyholders”);
- The policyholders of Rombalds whose insurance policies are transferring to River Thames (the “Rombalds Policyholders”); and
- The existing policyholders of River Thames (the “River Thames Policyholders”).

1.12 I have also considered the likely effect of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred or amended by the Proposed Scheme.

1.13 For each group of policyholders, I have considered the likely effects of the Proposed Scheme on the security of policyholders’ contractual rights and levels of service provided to policyholders. In each case I have considered the security of the policyholders on two bases:

- The position should the Proposed Scheme not proceed (the “No Scheme Position”); and
- The position should the Proposed Scheme proceed as planned (the “Post Scheme Position”).

1.14 As the Companies continue to run-off their liabilities, the dividend policy for each of the Companies allows for the regular payment of dividends subject to maintaining a solvency ratio of 130%. In addition, any dividend payments require ‘non-objection’ from the PRA before they can be paid, which is an additional level of protection which applies to all firms in run-off. The dividend policies and ‘non-objection’ requirement from the PRA apply to all the Companies in the No Scheme Position and to River Thames in the Post Scheme Position.

## Findings of the Independent Expert

### Introduction

1.15 I have set out below my conclusions for each group of policyholders, focussing on those aspects where there is a change in the Post Scheme Position compared with the No Scheme Position. I have not commented below on those aspects where there is no material change as a result of the Proposed Scheme, or if the change is beneficial. There are a number of aspects which fall within this category, including policyholder service levels and access to compensation schemes and ombudsman services.

1.16 In respect of policyholder service levels I understand that the claims handling and policy administration of all the policies of the Companies will be handled by the same individuals, and in accordance with the same claims handling approach, in both the No Scheme Position and the Post Scheme Position. As such, I consider that there will be no change to the claims handling and policy administration as a result of the Proposed Scheme.

1.17 I have considered the direct impact of the Proposed Scheme on Solvency Ratios, being the Eligible Own Funds divided by the Solvency Capital Requirement, or “SCR”. Eligible Own Funds are the surplus of assets over liabilities of an insurer that are eligible to cover the insurer’s regulatory capital requirement, or SCR. I have also considered the impact of a number of scenarios, including some ‘extreme but plausible’ scenarios, which are scenarios which I consider unlikely to occur but still conceivable (and not merely of a theoretical nature). These scenarios have given me additional insight into the robustness of the capital position of the Companies.

1.18 My conclusions below are based on the SCRs calculated according to the Standard Formula, which is the default approach for calculating an insurer's SCR under Solvency II (the regulatory regime applicable to the Companies). I have also reviewed the results of Enstar's unapproved partial internal model (the "unapproved Enstar Capital Model"), which Enstar uses to validate the results of the Standard Formula calculation. Overall, I am satisfied that both the Standard Formula and results from the unapproved Enstar Capital Model are a reasonable estimate for the capital requirements for each of the Companies as at 31 December 2023. However, given that the capital requirements calculated using the unapproved Enstar Capital Model are lower than those calculated using the Standard Formula, I consider it reasonable to base my conclusions on Solvency Ratios which use the SCR calculated according to the Standard Formula under Solvency II.

**Conclusions for policyholders transferring from Mercantile to River Thames**

1.19 It is my opinion that the Mercantile Policyholders will not be materially adversely affected by the Proposed Scheme.

*Impact on Solvency Ratios*

1.20 As a result of the Proposed Scheme, for the Mercantile Policyholders the Solvency Ratio will marginally increase from 188% in the No Scheme Position to 189% in the Post Scheme Position.

*Consideration of scenarios*

1.21 For the Mercantile Policyholders there is an increase (or no change) in the Solvency Ratio in the Post Scheme Position compared with the No Scheme Position for all of the scenarios other than those scenarios which only impact River Thames and a more extreme inflation scenario which I have considered.

1.22 For those scenarios which only impact River Thames, while the Mercantile Policyholders see a decrease in the Solvency Ratio as a result of the Proposed Scheme, the Solvency Ratio of River Thames in the Post Scheme Position remains above the target Solvency Ratio of 130%.

1.23 For the more extreme inflation scenario (which I consider to have a high expected return period, such that I would expect it to arise approximately once in every 50 to 200 years), the Mercantile Policyholders see a small decrease in the Solvency Ratio as a result of the Proposed Scheme, with the Solvency Ratio of River Thames in the Post Scheme Position falling below 100%. However, River Thames still has a strong positive net asset position in the Post Scheme Position and would be expected to be able to pay all liabilities after this stress without requiring additional funds.

1.24 I therefore consider that the reduction in the Solvency Ratio for these scenarios as a result of the Proposed Scheme does not materially adversely affect the Mercantile Policyholders.

*Increase in the proportion of assets which are subject to restrictions*

1.25 In both the No Scheme Position and the Post Scheme Position there are a number of trust funds and collateral arrangements, which, for the Mercantile Policyholders, result in an increase in the proportion of assets which are subject to restrictions (in that the restricted assets must be used to meet certain liabilities in priority to others) as a result of the Proposed Scheme. This proportion increases from 3% to 14%. This could disadvantage the Mercantile Policyholders in the Post Scheme Position due to a greater proportion of funds being unavailable to them.

1.26 This increase in the proportion of assets which are subject to restrictions will only impact the Mercantile Policyholders in the event of the insolvency of River Thames in the Post Scheme Position. I have considered a number of scenarios and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

**Conclusions for policyholders transferring from Rombalds to River Thames**

1.27 It is my opinion that the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme.

*Impact on Solvency Ratios*

1.28 As a result of the Proposed Scheme, for the Rombalds Policyholders, the Solvency Ratio will increase from 160% in the No Scheme Position to 189% in the Post Scheme Position. The SCR for Rombalds is below the absolute minimum of the MCR (of €3.7 million as at 31 December 2023). As insurers are required to hold at least the MCR, the Solvency Ratio for Rombalds in the No Scheme Position is based on this absolute minimum MCR amount.

1.29 However, the proportion of the highest quality Eligible Own Funds decreases, from 100% of Eligible Own Funds within Tier 1 in the No Scheme Position to 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position. I consider, though, that this is mitigated by a number of factors – including the significant increase in the overall size of the available assets in the Post Scheme Position, a reduction in the risk that ongoing expenses deplete the Eligible Own Funds in the Post Scheme Position, the increase in the diversification of River Thames in the Post Scheme Position (which improves the overall risk profile) and the increase in the Solvency Ratio for the Rombalds Policyholders as a result of the Proposed Scheme (from 160% to 189%).

1.30 In terms of the increase in the overall size of the available assets in the Post Scheme Position, the Rombalds Policyholders are moving from a company with Eligible Own Funds of $6.8 million to a company with Eligible Own Funds of $221.3 million. This means that risks which may threaten the solvency of Rombalds in the No Scheme Position are unlikely to have a material impact on River Thames in the Post Scheme Position.

1.31 In terms of the reduction in the risk that the ongoing expenses deplete the Eligible Own Funds, in the No Scheme Position the provision for future expenses is a material component of the total Solvency II Technical Provisions and the provision is calculated assuming that the business will continue to be managed by Rombalds for five years, after which time it is assumed that an alternative way will be found to manage any remaining liabilities (such as transferring them to another insurance company with more material remaining liabilities). If the Proposed Scheme does not go ahead and Enstar is unable to find an alternative way to manage any remaining liabilities, the Rombalds Policyholders are exposed to the risk that the ongoing expenses deplete the Eligible Own Funds available to pay claims, particularly given the long-tailed nature of the remaining liabilities within Rombalds. This risk is significantly reduced in the Post Scheme Position given the increase in the overall size of the available assets, and hence the reduction in the relative size of the provision for future expenses compared to the total liabilities.

*Consideration of scenarios*

1.32 The Rombalds Policyholders see a reduction in the Solvency Ratio of their reinsurer in the Post Scheme Position compared with the No Scheme Position for the majority of the scenarios.

1.33 However, I would note that for a number of the scenarios the Solvency Ratio of River Thames in the Post Scheme Position remains above the target Solvency Ratio of 130%.

1.34 There are seven scenarios where the Rombalds Policyholders see a reduction in their Solvency Ratio in the Post Scheme Position and the Solvency Ratio of River Thames in the Post Scheme Position falls below the target Solvency Ratio of 130%. I consider these seven scenarios to have either a high or extreme expected return period, such that I would expect each scenario to occur less frequently than once in every 50 years. However, I note that for these scenarios in the Post Scheme Position River Thames still has a positive net asset position, such that River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds.

1.35 In addition, I consider that in the Post Scheme Position the Rombalds Policyholders would benefit from the significant increase in the overall size of the available assets and the increase in the diversification of the business of River Thames.

1.36 I therefore consider that the reduction in the Solvency Ratio for the scenarios as a result of the Proposed Scheme does not materially adversely affect the Rombalds Policyholders.

*Priorities on winding up*

1.37 In the event of the insolvency of River Thames after the Proposed Scheme, the Rombalds Policyholders (all of whom are reinsurance policyholders) will be disadvantaged in the Post Scheme Position compared with the No Scheme Position since they will move from a company where they rank equally to all other policyholders to a company where 85% of policyholders rank before them.

1.38 However, as discussed above, I have considered a number of scenarios and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

*Increase in the proportion of assets which are subject to restrictions*

1.39 In both the No Scheme Position and the Post Scheme Position there are a number of trust funds and collateral arrangements, which, for the Rombalds Policyholders, result in an increase in the proportion of assets which are subject to restrictions (in that the restricted assets must be used to meet certain liabilities in priority to others) as a result of the Proposed Scheme. This proportion increases from 0% to 14% for the Rombalds Policyholders. This could disadvantage the Rombalds Policyholders in the Post Scheme Position due to a greater proportion of funds being unavailable to them.

1.40 This increase in the proportion of assets which are subject to restrictions will only impact the Rombalds Policyholders in the event of the insolvency of River Thames in the Post Scheme Position and, as discussed above, I consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

*Impact if only insurance business transfer scheme of Rombalds Policies is effected*

1.41 My opinions and conclusions have generally been reached on the basis that the Proposed Scheme is a single insurance business transfer scheme. It is possible, however, for only one of the insurance business transfer schemes to be effected.

1.42 I have considered the impact on my conclusions if the insurance business transfer scheme of the Rombalds Policies is effected but the insurance business transfer scheme of the Mercantile Policies does not go ahead. I have concluded that my opinion that the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme will not change if only the insurance business transfer scheme of the Rombalds Policies is effected.

**Conclusions for existing policyholders of River Thames**

1.43 It is my opinion that the River Thames Policyholders will not be materially adversely affected by the Proposed Scheme.

*Impact on Solvency Ratios*

1.44 The River Thames Policyholders will be remaining within River Thames under the Proposed Scheme. As a result of the Proposed Scheme, for the River Thames Policyholders the Solvency Ratio will increase from 150% in the No Scheme Position to 189% in the Post Scheme Position. In addition, the proportion of the highest quality Eligible Own Funds also increases, from 67% of Eligible Own Funds within Tier 1 in the No Scheme Position to 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position.

*Consideration of scenarios*

1.45 For the River Thames Policyholders there is an increase in the Solvency Ratio in the Post Scheme Position compared with the No Scheme Position for all but three of the scenarios. I consider these three scenarios to have either a high or extreme expected return period, such that I would expect each scenario to occur less frequently than once in every 50 years.

1.46 For these three scenarios, the Solvency Ratio of River Thames is either close to 100% in the Post Scheme Position or I consider that the decrease in Solvency Ratio from the No Scheme Position to the Post Scheme Position is not material. In addition, River Thames has a positive net asset position in the Post Scheme Position in all three of these scenarios, such that River

Thames would still be expected to be able to pay all liabilities after these scenarios without requiring additional funds.

*Priorities on winding up*

1.47 In the event of the insolvency of River Thames after the Proposed Scheme the River Thames Policyholders will be disadvantaged in the Post Scheme Position compared with the No Scheme Position due to a deterioration in their ranking.

1.48 However, I have considered a number of scenarios and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

**Impact on outwards reinsurers**

1.49 I have concluded that the Proposed Scheme will have no effect on the outwards reinsurers who provide reinsurance in respect of the policies which are transferring to River Thames, as a result of the following considerations:

- In relation to the potential effects of the Proposed Scheme on matters related to claims handling and policy administration, I have concluded that there will be no changes to the claims handling and policy administration as a result of the Proposed Scheme.
- I also concluded that the Proposed Scheme will have no impact on how the outwards reinsurance contracts are managed in either the No Scheme Position or the Post Scheme position.

**Communication strategy**

1.50 I have reviewed a draft of the letters and the explanatory circular which will be sent as part of the communication process and I consider that the level of information contained in these documents to be appropriate and its presentation to be clear, fair and not misleading.

1.51 In my opinion, the proposed waivers being sought of the statutory requirements to notify policyholders and reinsurers are proportionate and reasonable.

1.52 I am therefore satisfied that the proposed material to be presented to policyholders, claimants, reinsurers and other potentially affected parties is appropriate and the Companies' approach to communication is appropriate, reasonable and proportionate.

## Supplementary Report

1.53 In general, this Summary and the Scheme Report is based on data and information as at 31 December 2023, this being the most recent date at which audited financial information was available when the Scheme Report was drafted. Where possible, this has been supplemented by additional, unaudited, information as at 30 June 2024 and 30 September 2024.

1.54 I expect to produce a Supplementary Report in due course which will be based on the most up to date financial information which is available to me at that time, and which will include audited financial information as at 31 December 2024.

1.55 In my Supplementary Report, I will provide an update on the progress made to effect the Deed of Variation and amend the letter of credit with Citibank Europe plc, both of which are required to ensure that the Mercantile Policyholders who currently benefit from the ILU Guarantee do not lose that protection as a result of the Proposed Scheme.

1.56 In my Supplementary Report I will also comment on the implementation of the communication approach, including any objections received to the Proposed Scheme and whether these objections impact my conclusions on the Proposed Scheme.

1.57 At the time of drafting my Supplementary Report I will also consider any other relevant matters which have arisen since the time of drafting the Scheme Report.

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